Exhibit 18

EX-99.1 2 exh991.htm EXHIBIT 99.1

GAMMON LAKE RESOURCES INC.

ANNUAL INFORMATION FORM

FOR FISCAL YEAR ENDED DECEMBER 31, 2006

MARCH 29, 2007

GAMMON LAKE RESOURCES INC.
(the "Corporation")

ANNUAL INFORMATION FORM

TABLE OF CONTENTS

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in this Annual Information Form, including information as to the future financial or operating performance of the Corporation, its subsidiaries and its projects, constitute forward-looking statements. The words "believe", "expect", "anticipate", "contemplate", "target", "plan", "intends", "continue", "budget", "estimate", "may", "will", "schedule" and similar expressions identify forward-looking statements. Forward-looking statements include, among other things, statements regarding targets, estimates and assumptions in respect of gold production and prices, operating costs, results and capital expenditures, mineral reserves and mineral resources and anticipated grades and recovery rates. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by the Corporation, are inherently subject to significant business, economic, competitive, political and social uncertainties and contingencies. Many factors could cause the Corporation's actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, the Corporation. Such factors include, among others, risks relating to additional funding requirements, reserve and resource estimates, gold prices, hedging activities, exploration, development and operating risks, illegal miners, political and foreign risk, uninsurable risks, competition, limited mining operations, production risks, environmental regulation and liability, government regulation, currency fluctuations, recent losses and write-downs, restrictions in the Corporation's loan facility and dependence on key employees. Investors are cautioned that forward-looking statements are not guarantees of future performance and, accordingly, investors are cautioned not to put undue reliance on forward-looking statements due to the inherent uncertainty therein. Forward-looking statements are made as of the date of this Annual Information Form, or in the case of documents incorporated by reference herein, as of the date of such document, and the Corporation disclaims any intent or obligation to update publicly such forward-looking statements, whether as a result of new information, future events or results or otherwise.

3.3 Risk Factors

An investment in any securities of the Corporation is speculative and involves a high degree of risk due to the nature of the Corporation's business and the present stage of exploration and development of its mineral properties. The following risk factors, as well as risks not currently known to the Corporation, could materially adversely affect the Corporation's future business, operations and financial condition and could cause them to differ materially from the estimates described in forward-looking statements relating to the Corporation. Before deciding to invest in any securities of the Corporation, investors should consider carefully the risks included herein.

3.3.1 No History of Profitability

The Corporation has a limited history of producing precious metals from its properties and there can be no assurance that it will successfully expand or establish mining operations or profitably produce precious metals.

The Corporation has no history of profitability. Although commercial bodies of ore have been identified on the Ocampo Project and the El Cubo Project and production from such deposits has commenced, there is no assurance that they can be mined profitably. Accordingly, it is not assured that the Corporation will realize any profits in the short to medium term. Any profitability in the future from the business of the Corporation will be dependent upon developing and commercially mining economic deposits of minerals.

The Corporation has incurred losses and may continue to incur losses for the foreseeable future. The Corporation incurred the following losses during each of the following periods:

- CDN$28,692,380 for the year ended December 31, 2006;
- CDN$11,607,510 for the five month period ended December 31, 2005; and
- CDN$19,375,595 for the year ended July 31 2005.

The Corporation has an accumulated deficit of CDN$73,270,250 as of December 31, 2006, and had an accumulated deficit of CDN$44,577,870 as of December 31, 2005.

3.3.2 Reserves and Resources are Estimates

The figures for the Corporation's reserves and resources are estimates based on interpretation and assumptions and may yield less mineral production under actual conditions than is currently estimated.

Unless otherwise indicated, mineral resource and reserve figures presented herein are based upon estimates made by company personnel and independent geologists. These estimates are imprecise and depend upon geological interpretation and statistical inferences drawn from drilling and sampling analysis, which may prove to be unreliable. There can be no assurance that:

- these estimates will be accurate;
- reserves, resources or other mineralization figures will be accurate; or
- this mineralization could be mined or processed profitably.

Mineralization estimates for the Corporation's properties may require adjustments or downward revisions based upon further exploration or development work or actual production experience. In addition, the grade of ore ultimately mined, if any, may differ from that indicated by drilling results. There can be no assurance that minerals recovered in small scale tests will be duplicated in large scale tests under on-site conditions or in production scale.

The reserve and resource estimates contained herein have been determined and valued based on assumed future prices, cut-off grades and operating costs that may prove to be inaccurate. Extended declines in market prices for gold, silver and copper may render portions of the Corporation's mineralization uneconomic and result in reduced reported mineralization. Any material reductions in estimates of mineralization, or of the Corporation's ability to extract this mineralization, could have a material adverse effect on the Corporation's results of operations or financial condition.

3.3.3 The Corporation May Not Achieve Its Production Estimates

The figures for the Corporation's future production are estimates based on interpretation and assumptions and actual production may be less than is currently estimated.

The Corporation prepares estimates of future gold and silver production for its operating mines. The Corporation cannot give any assurance that it will achieve its production estimates. The failure of the Corporation to achieve its production estimates could have a material and adverse affect on any or all of its future cash flows, profitability, results of operations and financial condition. These production estimates are dependent on, among other things, the accuracy of mineral reserve estimates, the accuracy of assumptions regarding ore grades and recovery rates, ground conditions, physical characteristics of ores, such as hardness and the presence or absence of particular metallurgical characteristics and the accuracy of estimated rates and costs of mining and processing.

The Corporation's actual production may vary from its estimates for a variety of reasons, including, actual ore mined varying from estimates of grade, tonnage, dilution and metallurgical and other characteristics; short-term operating factors such as the need for sequential development of ore bodies and the processing of new or different ore grades from those planned; mine failures, slope failures or equipment failures; industrial accidents; natural phenomena such as inclement weather conditions, floods, droughts, rock slides and earthquakes; encountering unusual or unexpected geological conditions; changes in power costs and potential power shortages; shortages of principal supplies needed for operation, including explosives, fuels, chemical reagents, water, equipment parts and lubricants; labour shortages or strikes; civil disobedience and protests; and restrictions or regulations imposed by government agencies or other changes in the regulatory environments. Such occurrences could result in damage to mineral properties, interruptions in production, injury or death to persons, damage to property of the Corporation or others, monetary losses and legal liabilities. These factors may cause a mineral deposit that has been mined profitably in the past to become unprofitable forcing the Corporation to cease production. It is not unusual in new mining operations to experience unexpected problems during the start-up phase. Depending on the price of gold or other minerals, the Corporation may determine that it is impractical to commence or, if commenced, to continue commercial production at a particular site.

3.3.4 Mining Risks and Insurance

Mining is inherently dangerous and subject to conditions or events beyond the Corporation's control, which could have a material adverse effect on the Corporation's business.

Mining involves various types of risks and hazards, including:

- environmental hazards;
- industrial accidents;
- metallurgical and other processing problems;
- unusual or unexpected rock formations;
- structural cave-ins or slides;
- seismic activity;
- flooding;
- fires;

- periodic interruptions due to inclement or hazardous weather conditions;
- variations in grade, deposit size, density and other geological problems;
- mechanical equipment performance problems;
- unavailability of materials and equipment including fuel;
- labour force disruptions;
- unanticipated or significant changes in the costs of supplies including, but not limited to, petroleum; and
- unanticipated transportation costs.

These risks could result in damage to, or destruction of, mineral properties, production facilities or other properties, personal injury or death, loss of key employees, environmental damage, delays in mining, increased production costs, monetary losses and possible legal liability.

Where considered practical to do so, the Corporation maintains insurance against risks in the operation of its business in amounts which it believes to be reasonable. Such insurance, however, contains exclusions and limitations on coverage. There can be no assurance that such insurance will continue to be available, will be available at economically acceptable premiums or will be adequate to cover any resulting liability. Insurance against certain environmental risks, including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from production, is not generally available to the Corporation or to other companies within the mining industry. The Corporation may suffer a material adverse effect on its business if it incurs losses related to any significant events that are not covered by its insurance policies. Payment of such liabilities would reduce funds available for acquisition of mineral prospects or exploration and development and would have a material adverse affect on the financial position of the Corporation.

3.3.5 Uncertainty of Exploration and Development Projects

Exploration and development projects are uncertain and consequently it is possible that actual cash operating costs and economic returns will differ significantly from those estimated for a project prior to production.

Because mines have limited lives based on proven and probable mineral reserves, the Corporation will be required to continually replace and expand its mineral reserves as its mines produce gold. The life-of-mine estimates included in this annual information form may not be correct. The Corporation's ability to maintain or increase its annual production of gold and silver in the future will be dependent in significant part on its ability to identify and acquire aditional commercially viable mineral properties, bring new mines into production and to expand mineral reserves at existing mines.

Mineral resource exploration and development is a highly speculative business, characterized by a number of significant risks including, among other things, unprofitable efforts resulting not only from the failure to discover mineral deposits but also from finding mineral deposits that, though present, are insufficient in quantity and quality to return a profit from production. There can be no assurance that the Corporation will successfully acquire additional mineral rights. While discovery of additional ore-bearing structures may result in substantial rewards, few properties which are explored are ultimately developed into producing mines. Major expenses may be required to establish reserves by drilling and to construct mining and processing facilities at a particular site. It is impossible to ensure that the current exploration and development programs of the Corporation will result in profitable commercial mining operations. The profitability of the Corporation's operations will be, in part, directly related to the cost and success of its exploration and development programs which may be affected by a number of factors.

Development projects are subject to the completion of successful feasibility studies and environmental assessments, issuance of necessary governmental permits and receipt of adequate financing. They typically require a number of years and significant expenditures during the development phase before production is possible. The economic feasibility of development projects is based on many factors such as.

- estimation of reserves;
- anticipated metallurgical recoveries;
- environmental considerations and permitting;
- future gold prices; and
- anticipated capital and operating costs.

Estimates of mineral resources and reserves and cash operating costs are, to a large extent, based upon the interpretation of geologic data obtained from drill holes and other sampling techniques, and feasibility studies which derive estimates of cash operating costs based upon anticipated tonnage and grades of ore to be mined and processed, the configuration of the ore body, expected recovery rates of metals from the ore, estimated operating costs, anticipated climatic conditions and other factors. As a result, it is possible that actual cash operating costs and economic returns will differ significantly from those currently estimated for a project prior to production.

Any of the following events, among others, could affect the profitability or economic feasibility of a project:

- unanticipated changes in grade and tonnage of ore to be fined and processed;
- unanticipated adverse geotechnical conditions;
- incorrect data on which engineering assumptions are made;
- costs of constructing and operating a mine in a specific environment;
- availability and costs of processing and refining facilities;
- availability of economic sources of power;
- adequacy of water supply;
- adequate access to the site, including competing land uses (such as agriculture);
- unanticipated transportation costs;
- government regulations (including regulations regarding prices, royalties, duties, taxes, permitting, restrictions on production, quotas on exportation of minerals, as well as the costs of protection of the environment and agricultural lands);
- title claims, including aboriginal land claims;
- fluctuations in prices of precious metals; and
- accidents, labour actions and force majeure events.

Anticipated capital and operating costs, production and economic returns, and other estimates contained in feasibility studies, if prepared, may differ significantly from the Corporation's actual capital and operating costs. In addition, delays to construction schedules may negatively impact the net present value and internal rates of return of the Corporation's mineral properties as set forth in the applicable feasibility studies.

The future development of the Corporation's properties that are found to be economically feasible, including the expansion of the Ocampo Project and the El Cubo Project if new reserves are discovered, will require the expansion and improvement of existing mining operations, as well as the construction and operation of additional mines, processing plants and related infrastructure. As a result, the Corporation is subject to all of the risks associated with establishing and expanding mining operations and business enterprises including:

- the timing and cost, which will be considerable, of the construction of additional mining and processing facilities;
- the availability and costs of skilled labour, power, water, transportation and mining equipment;
- the availability and cost of appropriate smelting and/or refining arrangements;
- the need to obtain necessary environmental and other governmental approvals and permits, and the timing of those approvals and permits; and
- the availability of funds to finance construction and development activities.

The costs, timing and complexities of mine construction and development are increased by the remote location of the Corporation's mining properties. It is not unusual in new mining operations to experience unexpected problems and delays during the construction and development of a mine. In addition, delays in the commencement or expansion of mineral production often occur and, once commenced or expanded, the production of a mine may not meet expectations or estimates set forth in feasibility or other studies. Accordingly, there are no assurances that the Corporation will successfully develop and expand mining operations or profitably produce precious metals at its properties, including the Ocampo Project and the El Cubo Project.

3.3.6 Integration of New Acquisitions

The Corporation may experience problems integrating new acquisitions into existing operations, which could have a material adverse effect on the Corporation.

The Corporation recently acquired Mexgold and may make selected acquisitions in the future. The Corporation's success at completing any acquisitions will depend on a number of factors, including, but not limited to:

- identifying acquisitions which fit the Corporation's strategy;
- negotiating acceptable terms with the seller of the business or property to be acquired; and
- obtaining approval from regulatory authorities in the jurisdictions of the business or property to be acquired.

If the Corporation does make further acquisitions, any positive effect on the Corporation's results will depend on a variety of factors, including, but not limited to:

- assimilating the operations of an acquired business or property in a timely and efficient manner;
- maintaining the Corporation's financial and strategic focus while integrating the acquired business or property;
- implementing uniform standards, controls, procedures and policies at the acquired business; as appropriate; and
- to the extent that the Corporation makes an acquisition outside of markets in which it has previously operated, conducting and managing operations in a new operating environment.

Acquiring additional businesses or properties could place increased pressure on the Corporation's cash flow if such acquisitions involve cash considerations or the assumption of obligations requiring cash payments. The integration of the Corporation's existing operations with any acquired business will require significant expenditures of time, attention and funds. Achievement of the benefits expected from consolidation would require the Corporation to incur significant costs in connection with, among other things, implementing financial and planning systems. The Corporation may not be able to integrate the operations of a recently acquired business or restructure the Corporation's previously existing business operations without encountering difficulties and delays. In addition, this integration may require significant attention from the Corporation's management team, which may detract attention from the Corporation's day-to-day operations. Over the short-term, difficulties associated with integration could have a material adverse effect on the Corporation's business, operating results, financial condition and the price of the Corporation's Common Shares. In addition, the acquisition of mineral properties may subject the Corporation to unforeseen liabilities, including environmental liabilities.

3.3.7 Market Price of Gold and Silver

Changes in the market price of gold and other metals, which in the past has fluctuated widely, will affect the profitability of the Corporation's operations and financial condition.

The Corporation's profitability and long-term viability depend, in large part, upon the market price of gold and other metals and minerals produced from the Corporation's properties. The market price of gold and other metals is volatile and is impacted by numerous factors beyond the Corporation's control, including:

- expectations with respect to the rate of inflation;
- the relative strength of the U.S. dollar and certain other currencies;
- interest rates;
- global or regional political or economic conditions;
- supply and demand for jewellery and industrial products containing metals;
- costs of substitutes;
- changes in global or regional investment or consumption patterns; and
- sales by central banks and other holders, speculators and producers of gold and other metals in response to any of the above factors.

There can be no assurance that the market price of gold and other metals will remain at current levels or that such prices will improve. A decrease in the market price of gold and silver could adversely affect the profitability of the Corporation's existing mines and the Corporation's ability to finance the exploration and development of additional properties, which would have a material adverse effect on the Corporation's financial condition and results of operations. A decline in the market price of gold or silver, or both, may also require the Corporation to write-down its mineral reserves which would have a material and adverse affect on its earnings and profitability. Further, if revenue from gold or silver sales, or both, declines, the Corporation may experience liquidity difficulties.

3.3.8 Foreign Operations

The Corporation's Mexican property interests and operations are subject to the political risks and uncertainties associated with investment in a foreign country.

All of the Corporation's property interests are located in Mexico, and are subject to Mexican federal and state laws and regulations. As a result the Corporation's mining investments are subject to the risks normally associated with the conduct of business in foreign countries. The Corporation believes the present attitude of the governments of Mexico and of the States of Chihuahua and Guanajuato (where the Corporation's projects are located) to foreign investment and mining to be favourable; however, investors should assess the political risks of investing in a foreign country. Any variation from the current regulatory, economic and political climate could have an adverse effect on the affairs of the Corporation.

The risks of conducting business in a foreign country may include, among others, labour disputes, invalidation of governmental orders and permits, corruption, uncertain political and economic environments, sovereign risk, war (including in neighbouring states), civil disturbances and terrorist actions, arbitrary changes in laws or policies of particular countries, the failure of foreign parties to honour contractual relations, corruption, foreign taxation, delays in obtaining or the inability to obtain necessary governmental permits, opposition to mining from environmental or other non-governmental organizations, limitations on foreign ownership, limitations on the repatriation of earnings, limitations on gold exports, instability due to economic under-development, inadequate infrastructure and increased financing costs. In addition, the enforcement by the Corporation of its legal rights to exploit its properties may not be recognized by the government of Mexico or by its court system. These risks may limit or disrupt the Corporation's operations, restrict the movement of funds or result in the deprivation of contractual rights or the taking of property by nationalization or expropriation without fair compensation.

3.3.9 Property Rights, Permits and Licensing

The Corporation requires various property rights, permits and licenses in order to conduct its current and anticipated future operations and delays or a failure to obtain such property rights, permits and licenses, or a failure to comply with the terms of any such property rights, permits and licenses that the Corporation has obtained, could have a material adverse effect on the Corporation.

The Corporation's current and anticipated future operations, including further exploration, development activities and expansion or commencement of production on the Corporation's properties, require certain permits and licenses from various levels of governmental authorities. The Corporation may also be required to obtain certain property rights to access, or use, certain of its properties in order to proceed to development. There can be no assurance that all licenses, permits or property rights which the Corporation requires for the expansion and construction of mining facilities and the conduct of mining operations will be obtainable on reasonable terms or in a timely manner, or at all, that such terms may not be adversely changed, that required extension will be granted, or that the issuance of such licenses, permits or property rights will not be challenged by third parties. Delays in obtaining or a failure to obtain such licenses, permits or property rights or extension thereto, challenges to the issuance of such licenses, permits or property rights, whether successful or unsuccessful, changes to the terms of such licenses, permits or property rights, or a failure to comply with the terms of any such licenses, permits or property rights that the Corporation has obtained, could have a material adverse impact on the Corporation.

In order for the Corporation to carry out its mining activities, the Corporation's exploitation licences must be kept current. There is no guarantee that the Corporation's exploitation licences will be extended or that new exploitation licences will be granted. In addition, such exploitation licences could be changed and there can be no assurances that any application to renew any existing licences will be approved. The Corporation may be required to contribute to the cost of providing the required infrastructure to facilitate the development of its properties. The Corporation will also have to obtain and comply with permits and licences which may contain specific conditions concerning operating procedures, water use, waste disposal, spills, environmental studies, abandonment and restoration plans and financial assurances. There can be no assurance that the Corporation will be able to comply with any such conditions.

3.3.10 Uncertainties of Title

Title to the Corporation's mineral properties cannot be guaranteed and may be subject to prior unregistered agreements, transfers or claims and other defects.

The Corporation cannot guarantee that title to its properties will not be challenged. Title insurance is generally not available for mineral properties and the Corporation's ability to ensure that it has obtained secure claim to individual mineral properties or mining concessions may be severely constrained. The Corporation's mineral properties may be subject to prior unregistered agreements, transfers or claims, and title may be affected by, among other things, undetected defects. A successful challenge to the precise area and location of these claims could result in the Corporation being unable to operate on its properties as permitted or being unable to enforce its rights with respect to its properties.

3.3.11 Impact of Regulatory Requirements

Regulatory requirements significantly affect the Corporation's mining operations and may have a material adverse impact on our future cash flow, results of operations and financial condition.

Mining operations, development and exploration activities are subject to extensive laws and regulations governing prospecting, development, production, exports, taxes, labour standards, occupational health, waste disposal, environmental protection and remediation, protection of endangered and protected species, mine safety, toxic substances and other matters. Mining is subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of mineral exploration and production. The costs of discovering, evaluating, planning, designing, developing, constructing, operating and closing mines and other facilities in compliance with such laws and regulations are significant.

Failure to comply with applicable laws and regulations may result in enforcement actions thereunder, and may include corrective measures requiring capital expenditures, installation of additional equipment, or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed for violations of applicable laws or regulations.

New laws and regulations, amendments to existing laws and regulations, administrative interpretation of existing laws and regulations, or more stringent enforcement of existing laws and regulations, could have a material adverse impact on our future cash flow, results of operations and financial condition.

3.3.12 Impact of Environmental Laws and Regulations

The Corporation's activities are subject to environmental laws and regulations that may increase the Corporation's costs of doing business and restrict its operations.

The Corporation's exploration and production activities in Mexico are subject to regulation by governmental agencies under various environmental laws. These laws address emissions into the air, discharges into water, management of waste, management of hazardous substances, protection of natural resources, antiquities and endangered species and reclamation of lands disturbed by mining operations. Environmental legislation in many countries is evolving and the trend has been towards stricter standards and enforcement, increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and increasing responsibility for companies and their officers, directors and employees. Compliance with environmental laws and regulations may require significant capital outlays on behalf of the Corporation and may cause material changes or delays in the Corporation's intended activities. There can be no assurance that future changes in environmental regulations will not adversely affect the Corporation's business, and it is possible that future changes in these laws or regulations could have a significant adverse impact on some portion of the Corporation's business, causing the Corporation to re-evaluate those activities at that time.

The Corporation cannot give any assurance that, notwithstanding its precautions, breaches of environmental laws (whether inadvertent or not) or environmental pollution will not materially and adversely affect its financial condition and its results from operations. There is no assurance that future changes in environmental regulation, if any, will not adversely affect the Corporation's operations. Environmental hazards may exist on the properties on which the Corporation holds interests which are unknown to the Corporation at present and which have been caused by previous or existing owners or operators of the properties. Reclamation costs are uncertain and planned expenditures may differ from the actual expenditures required.

3.3.13 Capital Investment

The Corporation will require significant external financing to continue its exploration and development activities on its mineral properties.

The ability of the Corporation to continue exploration and development of its property interests will be dependent upon its ability to increase revenues from its existing production and planned expansions, and to raise significant additional financing hereafter. The sources of external financing that the Corporation may use for these purposes include project debt, and/or debt or equity offerings. There is no assurance that the financing alternative chosen by the Corporation will be available to the Corporation, on favourable terms or at all. Depending on the alternative chosen, the Corporation may have less control over the management of its projects. There is no assurance that the Corporation will successfully increase revenues from existing

and expanded production. Should the Corporation not be able to obtain such financing and increase its revenues, it may become unable to acquire and retain its mineral concessions and carry out its development plan, and its property interests may be lost entirely.

A summary of the Corporation's financial commitments under the agreements under which the Corporation acquired its interests in the Ocampo Project is provided in the following table. Also refer to *Item 3: Description of Business*.

Agreement	Consideration	Terms
Minera Fuerte Agreement	8% Net Profit Interest up to a maximum of U.S. $2,000,000	U.S. $2,000,000 less any net profit royalty payments made is due and payable upon sale of the property
	U.S. $250,000	Upon establishment of a mining reserve of 2.0 million ounces of gold and gold-equivalent ounces
Soyopa Agreement	U.S. $3,500,000	On or before November 23, 2007.
	U.S. $1,000,000	Upon sale of Ocampo Project to a third party.

3.3.14 Conflicts of Interest

Certain of the Corporation's directors and officers serve in similar positions with other public companies which put them in conflict of interest positions from time to time.

Certain of the directors and officers serve as directors, officers, promoters and members of management of other public companies and therefore it is possible that a conflict may arise between their duties as a directors or officers of the Corporation and their duties as a directors, officers, promoters or members of management of such other companies.

The directors and officers of the Corporation are aware of the existence of laws governing accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts of interest and the Corporation will rely upon such laws in respect of any directors' and officers' conflicts of interest or in respect of any breaches of duty by any of its directors or officers. All such conflicts will be disclosed by such directors or officers in accordance with the *Canada Business Corporations Act* and they will govern themselves in respect thereof to the best of their ability in accordance with the obligations imposed upon them by law.

3.3.15 Dependence on Key Personnel

The Corporation may experience difficulty attracting and retaining qualified management and technical personnel to meet the needs of its anticipated growth, and the failure to manage the Corporation's growth effectively could have a material adverse effect on its business and financial condition.

The success of the Corporation is heavily dependent on its key personnel and on its ability to motivate, retain and attract highly skilled persons. The competition for qualified personnel in the mining industry is currently intense. In order to attract and retain its key personnel, the Corporation has sought to provide its personnel with challenging work and a variety of opportunities for advancement through growth and expansion of the Corporation's business, and through equity participation.

The Corporation considers Messrs. Fred George and Bradley H. Langille to be key employees and maintains life insurance in the amount of $1,000,000 on the lives of each of these officers. The loss of these key persons or the Corporation's inability to attract and retain additional highly skilled employees required for the development of the Corporation's activities may have a material adverse effect on the Corporation's business or future operations.

In addition, the Corporation anticipates that, as it expands its existing production and brings additional properties into production, and as the Corporation acquires additional mineral rights, the Corporation will experience significant growth in its operations. The Corporation expects this growth to create new positions and responsibilities for management personnel and to increase demands on its operating and financial systems, as well as to require the hiring of a significant number of additional operations personnel. There can be no assurance that the Corporation will successfully meet these demands and effectively attract and retain additional qualified personnel to manage its anticipated growth and hire enough additional operations personnel. The failure to attract such qualified personnel to manage growth effectively could have a material adverse effect on the Corporation's business, financial condition or results of operations.

3.3.16 Increased Competition and Costs

Increased competition could adversely affect the Corporation's ability to acquire suitable producing properties or prospects for mineral exploration in the future. Recent high metal prices have increased demand for, and cost of, exploration, development and construction services and equipment.

The international mining industry is highly competitive. The Corporation's ability to acquire properties and add reserves in the future will depend not only on its ability to develop its present properties, but also on its ability to select and acquire suitable producing properties or prospects for mineral exploration. The Corporation may be at a competitive disadvantage in acquiring additional mining properties because it must compete with other individuals and companies, many of which have greater financial resources, operational experience and technical capabilities than the Corporation. The Corporation may also encounter increasing competition from other mining companies in its efforts to hire experienced mining professionals. Competition for exploration resources at all levels is currently very intense, particularly affecting the availability of manpower, drill rigs and helicopters. Increased competition could adversely affect the Corporation's ability to attract necessary capital funding or acquire suitable producing properties or prospects for mineral exploration in the future.

Recent increases in gold prices have encouraged increases in mining exploration, development and construction activities, which have resulted in increased demand for, and cost of, exploration, development and construction services and equipment. Increased demand for services and equipment could cause project costs to increase materially, resulting in delays if services or equipment cannot be obtained in a timely manner due to inadequate availability, and increase potential scheduling difficulties and cost increases due to the need to coordinate the availability of services or equipment, any of which could materially increase project exploration, development or construction costs, result in project delays or both.

3.3.17 Stock Price Volatility

The trading price for the Corporation's securities is volatile.

The trading price of the Corporation's Common Shares may be subject to large fluctuations. The trading price of the Corporation's Common Shares may increase or decrease in response to a number of events and factors, including:

- the price of gold and other metals;
- the Corporation's operating performance and the performance of competitors and other similar companies;
- the public's reaction to the Corporation's press releases, other public announcements and the Corporation's filings with the various securities regulatory authorities;
- changes in earnings estimates or recommendations by research analysts who track the Corporation's Common Shares or the shares of other companies in the resource sector;
- changes in general economic conditions;
- the number of the Corporation's Common Shares to be publicly traded after an offering;

- the arrival or departure of key personnel; and
- acquisitions, strategic alliances or joint ventures involving the Corporation or its competitors.

In addition, the market price of the Corporation's shares are affected by many variables not directly related to the Corporation's success and are therefore not within the Corporation's control, including other developments that affect the market for all resource sector shares, the breadth of the public market for the Corporation's shares, and the attractiveness of alternative investments. The effect of these and other factors on the market price of the Common Shares on the exchanges in which the Corporation trades has historically made the Corporation's share price volatile and suggests that the Corporation's share price will continue to be volatile in the future.

3.3.18 Dilution

The Corporation may raise funds for future operations through the issuance of shares, debt instruments or other securities convertible into shares and such financings may result in the dilution of present and prospective shareholdings.

In order to finance future operations, the Corporation may raise funds through the issuance of shares or the issuance of debt instruments or other securities convertible into shares. The Corporation cannot predict the size of future issuances of Common Shares or the issuance of debt instruments or other securities convertible into shares or the effect, if any, that future issuances and sales of the Corporation's securities will have on the market price of the Corporation's Common Shares. Any transaction involving the issuance of previously authorized but unissued shares, or securities convertible into shares, would result in dilution, possibly substantial, to present and prospective security holders.

3.3.19 Currency

Because the Corporation's producing properties are located in Mexico and will have production costs incurred in Mexican pesos, while gold and other metals are generally sold in United States dollars, the Mexican project results could be materially adversely affected by an appreciation of the Mexican peso.

Gold and other metals are sold throughout the world principally in United States dollars. The Corporation's operating costs for its Mexican projects are incurred in Mexican pesos and certain costs are incurred and certain debt obligations are owed in United States dollars. As a result, any significant and sustained appreciation of the Mexican peso against the United States dollar, or of the United States dollar against the Canadian dollar, may materially increase the Corporation's costs and reduce revenues, if any, on its Mexican projects. The Corporation does not currently use any derivative products to manage or mitigate any foreign exchange exposure.

3.3.20 Lack of Hedging

Because the Corporation does not currently intend to use forward sale arrangements to protect against low commodity prices, the Corporation's operating results are exposed to the impact of any significant drop in commodity prices.

The Corporation does not currently intend to enter into forward sales arrangements to reduce the risk of exposure to volatility in commodity prices. Accordingly, the Corporation's future operations are exposed to the impact of any significant decrease in commodity prices. If such prices decrease significantly at a time when the Corporation is producing, the Corporation would realize reduced revenues. While it is currently not the Corporation's current intention to enter into forward sales arrangements, the Corporation is not restricted from entering into forward sales arrangements at a future date.

3.3.21 Dividends

No dividends have been or will be paid in the foreseeable future.

To date, the Corporation has paid no dividends on its Common Shares. The Corporation intends to retain its earnings, if any, to finance the growth and development of the business and does not intend to pay dividends on the Common Shares in the foreseeable future. Any return on an investment in the Corporation's Common Shares will come from the appreciation, if any, in the value of the Common Shares. The payment of future dividends, if any, will be reviewed periodically by the Corporation's board of directors and will depend upon, among other things, conditions then existing including earnings,

financial condition and capital requirements, restrictions in financing agreements, business opportunities and conditions and other factors. See "*Item 4: Dividends*".

3.3.22 Compliance with Sarbanes-Oxley

The Corporation may fail to achieve and maintain the adequacy of internal control over financial reporting as per the requirements of the Sarbanes-Oxley Act.

The Corporation documented and tested during its most recent fiscal year, its internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act ("**SOX**"). SOX requires an annual assessment by management of the effectiveness of the Corporation's internal control over financial reporting and an attestation report by the Corporation's independent auditors addressing this assessment. The Corporation may fail to achieve and maintain the adequacy of its internal control over financial reporting as such standards are modified, supplemented, or amended from time to time, and the Corporation may not be able to ensure that it can conclude on an ongoing basis that it has effective internal controls over financial reporting in accordance with Section 404 of SOX. The Corporation's failure to satisfy the requirements of Section 404 of SOX on an ongoing, timely basis could result in the loss of investor confidence in the reliability of its financial statements, which in turn could harm the Corporation's business and negatively impact the trading price of its Common Shares or market value of its other securities. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the Corporation's operating results or cause it to fail to meet its reporting obligations. Future acquisitions of companies may provide the Corporation with challenges in implementing the required processes, procedures and controls in its acquired operations. Acquired companies may not have disclosure controls and procedures or internal control over financial reporting that are as thorough or effective as those required by securities laws currently applicable to the Corporation.

No evaluation can provide complete assurance that the Corporation's internal control over financial reporting will detect or uncover all failures of persons within the Corporation to disclose material information otherwise required to be reported. The effectiveness of the Corporation's control and procedures could also be limited by simple errors or faulty judgments. In addition, as the Corporation continues to expand, the challenges involved in implementing appropriate internal controls over financial reporting will increase and will require that the Corporation continue to improve its internal controls over financial reporting. Although the Corporation intends to devote substantial time and incur substantial costs, as necessary, to ensure ongoing compliance, the Corporation cannot be certain that it will be successful in complying with Section 404.

3.3.23 Possible PFIC Status

The Corporation may be a "passive foreign investment company" for the current and future taxable years under the U.S. Internal Revenue Code, which may result in adverse tax consequences for investors in the United States.

Shareholders and potential investors that are U.S. taxpayers should be aware that the Corporation may be a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (a "PFIC") for the current and future taxable years. If the Corporation is or becomes a PFIC, any gain recognized on the sale of Common Shares and any "excess distributions" (as specifically defined) paid on the Common Shares must be ratably allocated to each day in a U.S. taxpayer's holding period for the Common Shares. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer's holding period for the Common Shares generally will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year.

As an alternative to the U.S. federal income tax treatment if the Corporation is a PFIC as described above, a U.S. taxpayer that makes a "QEF election" generally will be subject to U.S. federal income tax on such U.S. taxpayer's pro rata share of the Corporation's "net capital gain" and "ordinary earnings" (calculated under U.S. federal income tax rules), regardless of whether such amounts are actually distributed by the Corporation. U.S. taxpayers should be aware that there can be no assurance that the Corporation will satisfy record keeping requirements or that it will supply U.S. taxpayers with required information under the QEF rules in the event

that the Corporation is a PFIC and a U.S. taxpayer wishes to make a QEF election. As a second alternative, a U.S. taxpayer may make a "mark-to-market election" if the Corporation is a PFIC and the Common Shares are "marketable stock" (as specifically defined). A U.S. taxpayer that makes a mark-to-market election generally will include in gross income, for each taxable year in which the Corporation is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the Common Shares as of the close of such taxable year over (b) such U.S. taxpayer's tax basis in such Common Shares.